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Table 5: Satellite Radio EOP Subscriber Forecasts

Subscribers (000)

Period	2005	1Q06	2Q06	3Q06	4Q06E	2006E	2007E	2008E	2009E	2010E	2015E
Total Subs, EOP (000)	**9,250**	**10,580**	**11,578**	**12,305**	**13,653**	**13,653**	**17,693**	**21,574**	**25,549**	**29,184**	**43,917**
y/y % chg	*111.5%*	*102.7%*	*85.6%*	*70.7%*	*47.6%*	*47.6%*	*29.6%*	*21.9%*	*18.4%*	*14.2%*	*5.5%*
XM	5,933	6,502	6,900	7,186	7,629	7,629	9,042	10,602	12,303	14,028	21,957
y/y % chg	*83.7%*	*72.5%*	*56.2%*	*42.7%*	*28.6%*	*28.6%*	*18.5%*	*17.3%*	*16.0%*	*14.0%*	*6.3%*
% of total	*64.1%*	*61.5%*	*59.6%*	*58.4%*	*55.9%*	*55.9%*	*51.1%*	*49.1%*	*48.2%*	*48.1%*	*50.0%*
Sirius	3,317	4,078	4,678	5,119	6,024	6,024	8,651	10,972	13,246	15,156	21,960
y/y % chg	*190.1%*	*161.5%*	*157.8%*	*135.5%*	*81.6%*	*81.6%*	*45.6%*	*26.8%*	*20.7%*	*14.4%*	*4.7%*
% of total	*35.9%*	*38.5%*	*40.4%*	*41.6%*	*44.1%*	*44.1%*	*48.9%*	*50.9%*	*51.8%*	*51.9%*	*50.0%*
Retail Subs, EOP (000)	**6,084**	**6,922**	**7,387**	**7,642**	**8,346**	**8,346**	**9,534**	**10,292**	**10,498**	**10,421**	**8,109**
y/y % chg	*116.8%*	*108.2%*	*89.6%*	*73.6%*	*37.2%*	*37.2%*	*14.2%*	*8.0%*	*2.0%*	*-0.7%*	*-8.6%*
% of total	*65.8%*	*65.4%*	*63.6%*	*62.1%*	*61.1%*	*61.1%*	*53.9%*	*47.7%*	*41.1%*	*35.7%*	*18.5%*
XM	3,618	3,922	4,091	4,159	4,301	4,301	4,439	4,472	4,345	4,173	3,080
y/y % chg	*90.9%*	*77.1%*	*61.6%*	*46.7%*	*18.9%*	*18.0%*	*3.2%*	*0.7%*	*2.8%*	*3.9%*	*6.7%*
% of total	*59.5%*	*56.7%*	*55.5%*	*54.4%*	*51.5%*	*51.5%*	*46.6%*	*43.4%*	*41.4%*	*40.0%*	*38.0%*
Sirius	2,465	3,000	3,277	3,483	4,044	4,044	5,096	5,821	6,153	6,248	5,028
y/y % chg	*170.5%*	*170.3%*	*141.9%*	*122.6%*	*64.0%*	*64.0%*	*26.0%*	*14.2%*	*5.7%*	*1.5%*	*-6.5%*
% of total	*40.5%*	*43.3%*	*44.5%*	*45.6%*	*48.5%*	*48.5%*	*53.4%*	*56.6%*	*58.6%*	*60.0%*	*62.0%*
										13,455	
Auto/OEM Subs, EOP (000)	**3,094**	**3,592**	**4,141**	**4,616**	**5,261**	**5,261**	**8,111**	**11,236**	**15,004**	**18,716**	**35,761**
y/y % chg	*104.9%*	*96.3%*	*82.0%*	*68.6%*	*70.0%*	*70.0%*	*54.2%*	*38.5%*	*33.6%*	*24.7%*	*8.6%*
% of total	*33.5%*	*33.9%*	*35.8%*	*37.5%*	*38.5%*	*38.5%*	*45.8%*	*52.1%*	*58.7%*	*64.1%*	*81.4%*
XM	2,271	2,543	2,767	3,006	3,307	3,307	4,583	6,110	7,938	9,834	18,856
y/y % chg	*73.7%*	*67.4%*	*50.2%*	*39.4%*	*45.6%*	*45.6%*	*38.6%*	*33.3%*	*29.9%*	*23.9%*	*8.7%*
% of total	*73.4%*	*70.8%*	*66.8%*	*65.1%*	*62.9%*	*62.9%*	*56.5%*	*54.4%*	*52.9%*	*52.5%*	*52.7%*
Sirius	624	1,049	1,374	1,610	1,954	1,954	3,529	5,125	7,066	8,882	16,905
y/y % chg	*304.8%*	*237.0%*	*217.7%*	*176.7%*	*117.2%*	*137.2%*	*60.6%*	*45.2%*	*37.9%*	*25.7%*	*8.5%*
% of total	*26.6%*	*29.2%*	*33.2%*	*34.9%*	*37.1%*	*37.1%*	*43.5%*	*45.0%*	*47.1%*	*47.5%*	*47.3%*

Source: JPMorgan estimates, Company data.

XM-S-0001815

Table 6: Satellite Radio Net Addition Estimates

Subscribers (000)

Period	2005	1Q06	2Q06	3Q06	4Q06E	2006E	2007E	2008E	2009E	2010E	2015E
Total Net Adds (000)	**4,877**	**1,330**	**998**	**727**	**1,348**	**4,404**	**4,040**	**3,881**	**3,975**	**3,635**	**2,276**
y/y % chg	*77.3%*	*57.1%*	*1.4%*	*-25.5%*	*33.9%*	*9.7%*	*8.3%*	*3.9%*	*2.4%*	*-8.5%*	*12.8%*
XM	2,704	569	398	286	443	1,696	1,413	1,560	1,701	1,725	1,294
y/y % chg	*44.7%*	*5.1%*	*28.5%*	*53.7%*	*56.7%*	*37.3%*	*16.7%*	*10.4%*	*9.0%*	*1.4%*	*-8.9%*
% of total	*55.4%*	*42.8%*	*39.9%*	*39.3%*	*32.9%*	*38.5%*	*35.0%*	*40.2%*	*42.8%*	*47.5%*	*56.8%*
Sirius	2,173	761	600	441	905	2,708	2,627	2,321	2,274	1,910	982
y/y % chg	*146.4%*	*149.2%*	*64.1%*	*22.8%*	*20.8%*	*24.6%*	*-3.0%*	*11.6%*	*-2.0%*	*-16.0%*	*-17.4%*
% of total	*44.6%*	*57.2%*	*60.1%*	*60.7%*	*67.1%*	*61.5%*	*65.0%*	*59.8%*	*57.2%*	*52.5%*	*43.2%*
Retail Net Adds (000)	**3,277**	**839**	**445**	**275**	**704**	**2,282**	**1,189**	**758**	**205**	**(77)**	**(571)**
y/y % chg	*85.6%*	*61.9%*	*20.7%*	*46.7%*	*58.2%*	*31.0%*	*-47.4%*	*36.2%*	*72.9%*	*137.4%*	*8.6%*
% of total	*67.2%*	*63.0%*	*44.5%*	*37.8%*	*52.2%*	*51.4%*	*29.4%*	*19.5%*	*5.2%*	*-2.1%*	*-25.1%*
XM	1,723	304	168	69	142	683	137	33	(127)	(171)	(223)
y/y % chg	*61.1%*	*4.9%*	*46.7%*	*-77.5%*	*81.8%*	*60.4%*	*79.9%*	*-76.0%*	*-486.0%*	*34.6%*	*-1.7%*
% of total	*52.6%*	*36.2%*	*37.9%*	*25.0%*	*20.2%*	*30.2%*	*11.6%*	*4.3%*	*-61.9%*	*223.1%*	*39.1%*
Sirius	1,554	535	276	206	562	1,579	1,051	725	333	94	(348)
y/y % chg	*123.0%*	*169.4%*	*12.8%*	*1.9%*	*37.6%*	*1.6%*	*-33.4%*	*-31.0%*	*-54.1%*	*-71.6%*	*16.4%*
% of total	*47.4%*	*63.8%*	*62.1%*	*75.0%*	*79.8%*	*69.8%*	*88.4%*	*95.7%*	*161.9%*	*123.1%*	*60.9%*
Auto/OEM Net Adds (000)	**1,584**	**497**	**549**	**475**	**644**	**2,168**	**2,851**	**3,123**	**3,769**	**3,712**	**2,847**
y/y % chg	*62.4%*	*55.7%*	*23.3%*	*2.6%*	*81.1%*	*36.8%*	*31.6%*	*9.6%*	*20.7%*	*-1.5%*	*-9.2%*
% of total	*32.5%*	*37.4%*	*55.0%*	*65.3%*	*47.8%*	*49.2%*	*70.6%*	*80.5%*	*94.8%*	*102.1%*	*125.1%*
XM	964	272	225	239	301	1,036	1,275	1,527	1,828	1,896	1,517
y/y % chg	*21.4%*	*28.6%*	*-30.5%*	*24.0%*	*163.8%*	*7.6%*	*23.1%*	*19.7%*	*19.7%*	*3.7%*	*-7.9%*
% of total	*60.8%*	*54.7%*	*40.9%*	*50.3%*	*46.7%*	*47.8%*	*44.7%*	*48.9%*	*48.5%*	*51.1%*	*53.3%*
Sirius	620	225	325	236	343	1,130	1,575	1,596	1,941	1,816	1,330
y/y % chg	*241.4%*	*108.3%*	*166.8%*	*58.7%*	*42.1%*	*82.2%*	*39.4%*	*1.3%*	*21.6%*	*-6.5%*	*-10.7%*
% of total	*39.2%*	*45.3%*	*59.1%*	*49.8%*	*53.3%*	*52.2%*	*55.3%*	*51.1%*	*51.5%*	*48.9%*	*46.7%*

Source: JPMorgan estimates, Company data.

XM-S-0001816

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Table 7: Satellite Radio Gross Addition Estimates

Period	2005	1Q06	2Q06	3Q06	4Q06E	2006E	2007E	2008E	2009E	2010E	2015E
Total Gross Adds (000)	6,651	1,967	1,757	1,602	2,230	7,556	8,678	9,877	11,234	12,201	15,606
y/y % chg	86.8%	67.1%	27.4%	10.2%	15.6%	13.6%	14.9%	13.8%	13.7%	8.6%	3.9%
XM Total Gross Adds	4,130	1,007	926	868	1,032	3,834	3,970	4,558	5,462	6,098	8,186
y/y % chg	60.3%	22.6%	-2.1%	12.2%	24.9%	-7.2%	3.6%	14.8%	19.8%	11.6%	4.6%
% of Total	62.1%	51.2%	52.7%	54.2%	46.3%	50.7%	45.8%	46.1%	48.6%	50.0%	52.5%
Sirius Total Gross Adds	2,520	960	831	734	1,198	3,722	4,708	5,319	5,772	6,104	7,419
y/y % chg	156.6%	169.8%	91.7%	57.8%	5.4%	47.7%	26.5%	13.0%	8.5%	5.8%	3.2%
% of Total	37.9%	48.8%	47.3%	45.8%	53.7%	49.3%	54.2%	53.9%	51.4%	50.0%	47.5%
Total Retail Gross Adds	4,090	1,187	832	694	1,174	3,886	3,149	2,992	2,842	2,700	2,089
y/y % chg	103.4%	79.3%	14.0%	-7.3%	-39.8%	-5.0%	-19.0%	-5.0%	-5.0%	-5.0%	5.0%
% of total	61.5%	60.3%	47.3%	43.3%	52.7%	51.4%	36.3%	30.3%	25.3%	22.1%	13.4%
XM	2,214	516	409	316	416	1,657	1,133	1,076	1,022	971	751
y/y % chg	82.5%	24.0%	-3.1%	28.3%	55.5%	-25.2%	-31.6%	-5.0%	-5.0%	-5.0%	-5.0%
% of retail	54.1%	43.5%	49.1%	45.5%	35.5%	42.6%	36.0%	36.0%	36.0%	36.0%	36.0%
Sirius	1,876	670	423	378	758	2,229	2,017	1,916	1,820	1,729	1,338
y/y % chg	135.4%	173.0%	37.5%	72.6%	75.2%	18.8%	9.5%	5.0%	-5.0%	-5.0%	-5.0%
% of retail	45.9%	56.5%	50.9%	54.5%	64.5%	57.4%	64.0%	64.0%	64.0%	64.0%	64.0%
Total OEM Gross Adds	2,561	780	925	908	1,058	3,669	5,529	6,885	8,392	9,501	13,516
y/y % chg	65.3%	51.1%	42.5%	28.7%	52.9%	43.3%	50.7%	24.5%	21.9%	13.2%	5.5%
% of total	38.5%	39.7%	52.7%	56.7%	47.3%	48.6%	63.7%	69.7%	74.7%	77.9%	86.6%
XM	1,916	491	518	553	616	2,177	2,838	3,482	4,440	5,127	7,435
y/y % chg	40.5%	21.1%	1.2%	0.6%	10.5%	13.6%	30.4%	22.7%	27.5%	15.5%	5.7%
% of OEM	74.8%	62.9%	55.9%	60.9%	58.3%	59.3%	51.3%	50.6%	52.9%	54.0%	55.0%
Sirius	644	289	408	355	440	1,493	2,691	3,403	3,952	4,375	6,081
y/y % chg	248.2%	182.8%	224.8%	127.2%	74.5%	131.7%	80.3%	26.5%	16.1%	10.7%	5.2%
% of OEM	25.2%	37.1%	44.1%	39.1%	41.7%	40.7%	48.7%	49.4%	47.1%	46.0%	45.0%

Source: JPMorgan estimates, Company data

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Companies Recommended in This Report (all prices in this report as of market close on 12 January 2007)
Sirius Satellite Radio (SIRI/$4.10/Neutral), XM Satellite Holdings Inc (XMSR/$17.12/Neutral)

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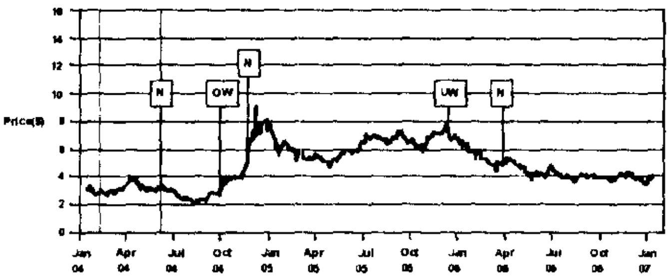
Sirius Satellite Radio (SIRI) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
07-Jun-04	N	3.16	-
30-Sep-04	OW	3.02	-
24-Nov-04	N	6.71	-
16-Dec-05	UW	7.17	-
27-Mar-06	N	5.01	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 12, 2004 - Jun 07, 2004. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts' discretion.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight

XM-S-0001818

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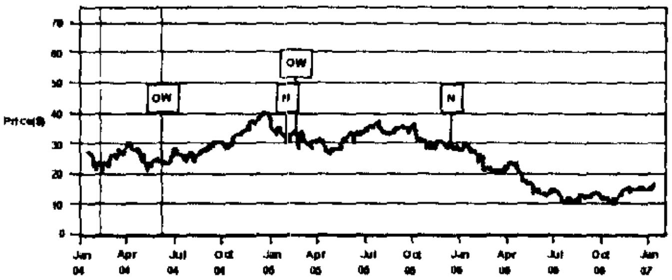
XM Satellite Holdings Inc (XMSR) Price Chart



Date	Rating	Share Price ($)	Price Target ($)
07-Jun-04	OW	23.74	-
31-Jan-05	N	31.91	-
17-Feb-05	OW	33.88	-
16-Dec-05	N	30.95	-

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 12, 2004 - Jun 07, 2004. This chart shows JPMorgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period. As of Aug. 30, 2002, the firm discontinued price targets in all markets where they were used. They were reinstated at JPMSI as of May 19th, 2003, for Focus List (FL) and selected Latin stocks. For non-JPMSI covered stocks, price targets are required for regional FL stocks and may be set for other stocks at analysts' discretion.
JPMorgan ratings: OW = Overweight, N = Neutral, UW = Underweight

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JPMorgan Equity Research Ratings Distribution, as of December 29, 2006

	Overweight (buy)	Neutral (hold)	Underweight (sell)
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IB clients*	45%	42%	39%
JPMSI Equity Research Coverage	37%	48%	15%
IB clients*	63%	57%	42%

*Percentage of investment banking clients in each rating category.
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XM-S-0001819

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BEAR STEARNS

Bear, Stearns & Co. Inc. – U.S. Equity Research

January 23, 2007

Sector	Rating
Satellite Communications	Market Weight

Companies Covered

Company	Cl. Price	Rtg
XM Satellite Radio	$14.73	O
Sirius Satellite Radio	$3.85	P

O-Outperform,P=PeerPerform,U-Underperform
Securities in this report priced as of:
January22,2007 16:00ET

MergeCo Synergies Could Reach $6.7B

- **$6.7B in Synergies.** With anticipation building that the DARS companies may be getting closer to an attempted merger, we wanted to quantify what the value of a MergeCo could be. In taking several simplifying and sometimes conservative assumptions, we believe the NPV of savings - synergies could reach $6.7B.

- **No Major Rev Benefits.** Our assumptions conservatively include no revenue from additional services benefits, as we believe that MergeCo would need to operate both satellite systems for the near term to avoid shutting off one system's subscribers. We think longer term, potential additional revenues could augment our synergies estimate meaningfully. On cost savings, we believe the largest contributor would come from OEM & Programming. For the most part, we assume premier content costs will not be adjusted significantly after coming off contract, as DARS will still compete with other delivery technologies.

- **Stock Implications.** We intrinsically value XM at $17 by YE 2007 and a fair value estimate for Sirius at $4. Assuming a "merger of equals", the MergeCo could be worth $20B or approximately $27 per share for XM and $6 per share for Sirius by the end of the year. We believe that only 2% of the potential synergy benefit is incorporated by the market into today's stock prices (down from 25% a week ago).

- **Merger Talk to Drive Stocks.** We continue to believe that merger anticipation will continue to drive the stocks in the NT, outweighing fundamentals. Hence we have a positive bias on the names. However, we underscore that we are unclear if a deal would overcome the regulatory hurdle, which could prove insurmountable.

- **Setting 2007 Sub Est.** We have also reviewed our model to adjust for recent trends (weaker retail). We now estimate XM and Sirius will end 2007 with 9.2-9.3M and 8.1-8.2M subs respectively, down from 10M and 8.5M, respectively.

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[1] All numbers are after stock based compensation expense. Beginning with 2006 estimates this expense will be normalized consistent with BSC option expense policy. Prior years are not necessarily normalized. Outside data provider may not conform to this policy.

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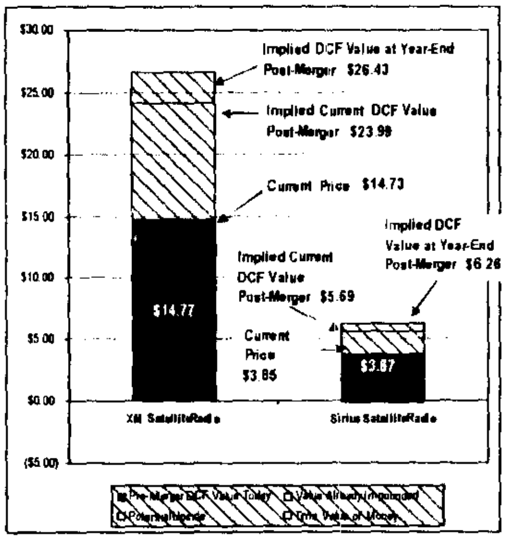
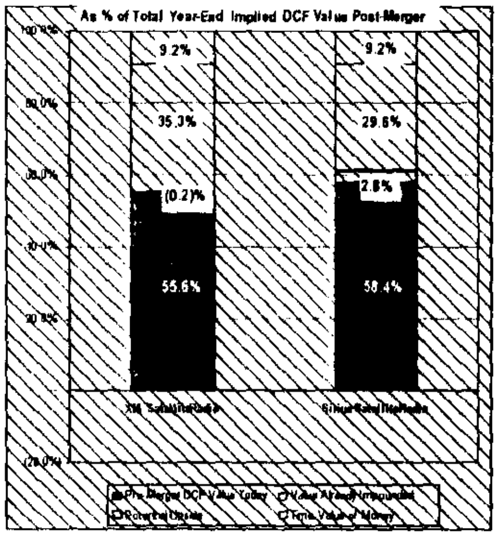
BEAR, STEARNS & CO. INC. 383 MADISON AVENUE NEW YORK, NY 10179 (212) 272-2000 WWW.BEARSTEARNS.COM

INVESTMENT THEME

Last year was a tougher than expected year on the satellite radio subscriber additions as well as the satellite stocks. Given a pressing retail environment, many investors believe that a merger of the 2 companies is a great solution that would not only provide a stronger proposition for consumers in the future (1 - greater choice or programming to one device; 2 - a more financially stable / flexible service provider), but would also produce tremendous synergies for investors, as duplicate costs get removed from the industry. Therefore we have worked out below what we think would be the likely synergy for the industry based on conservative assumptions, which we think could reach \$6.7B. We make several simplifying assumptions that we think could be conservative and could therefore provide further upside should a merger be attempted (and successful), such as: revenue from new services, further capex reductions, and larger programming savings. We believe that should any attempted merger be a merger of equals, that the synergies could make XM and Sirius stocks worth \$27 and \$6 respectively, representing strong upside from yesterdays close. While we believe that a merger would bring tremendous synergies to a nascent industry, we underscore that any merger would be closely scrutinized and that regulatory approval could prove insurmountable. However, we also believe that NT movement in the stocks will be influenced by merger potential and any potential announcements. We believe this to be very positive and hence are favorable to the group.

Exhibit 1. Merger Model – What Does that Mean for the Stocks?





Source: CompanyDocuments Bear, Stearns & Co. Inc.

A LOOK AT SYNERGIES

Potential Synergies Valued at ~\$6.7 Billion. There has been a lot of discussion about the synergies arising from a potential merger between XM and Sirius. While there may be a debate about whether the incremental revenue potential from offering value added services, like video, traffic and weather, public safety information, etc. is larger than the potential cost savings from the additional negotiating leverage vis-a-vis car manufacturers and content owners (NFL, MLB, Howard Stern, etc.), we believe that a merger can create significant additional value for shareholders. Our analysis suggests that the two companies could generate an incremental ~\$1.1 billion in pre-tax synergies by 2013, which would result in a tax-adjusted NPV of synergies at about \$6.7 billion.

Exhibit 2. Merger Model – Operating Pre-Tax Synergies ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E
EBITDA Difference				\$256,426	\$468,897	\$535,432	\$570,926	\$646,108	\$898,617
Interest Income on Incremental Cash	--			5,845	16,452	30,470	45,907	62,664	84,833
Capital Expenditure Savings	--	--	--	30,000	45,000	135,000	155,000	129,088	125,000
Total Incremental Dollars	--	--	--	**\$292,272**	**\$530,350**	**\$700,903**	**\$771,833**	**\$837,860**	**\$1,108,450**

Source: CompanyDocuments; Bear, Stearns & Co. Inc.

XM-S-0001824

In our model, we have assumed the following larger themes.

- **Aggregate Subscriber Estimate Remains Unchanged.** The two companies continue to face the same level of challenge at retail as they are when they operate as two separate companies and that the deployments at OEM level do not change. As such, we are leaving the subscriber estimate unchanged.

- **XM's Network of GEO Satellites Plus Repeaters Likely will be the Surviving System.** We also think that the XM system (two geostationary satellites plus a network of repeaters) likely would remain the surviving system for the following reasons (i) given that the two satellites remain stationary in the sky relative to the ground, its is easier to map areas with deficient signals and to place repeaters, which leads to better signal reception, (ii) the stationary factor also results in the chipsets making less calculations to adjust for Doppler effect, reflections, etc), which reduces the heat that they generate, which could result in smaller portable products, (iii) lower heat dissipation and reduced processing power could also result in higher battery life and/or lower product weight, and (iv) XM's radios are already in the process of being deployed on larger number of OEMs which is a more difficult process and any disruption could result in a larger loss of market power. Given this assumption, we are assuming that Sirius completes the manufacture of Sirius 5 with certain modifications, and discontinues spending capital thereafter.

- **Conservatively Assuming Satellite Replacement Cycle Begins Mid-Next Decade.** We have also assumed that the merged entity does not start manufacturing the next generation satellites immediately, rather replaces the current generation XM satellites as they reach end of life towards the middle of the next decade. While this means that they cannot begin utilizing the benefits of the additional spectrum immediately, this also allows them to continue serving the existing Sirius retail and OEM customers for a significant period of time. As a result, while there could be significant additional revenues that the merged platform can generate from enhanced services we mentioned previously, we are not factoring these incremental revenues in our model. For the existing satellites that the two companies have already contracted to manufacture, we have assumed that the satellites continue to be manufactured, although with modifications relating to the spectrum utilization (i.e. for the full 25 MHz rather than the 12.5 MHz that the two companies have been allocated individually).

- **Revenue Opportunities from Utilizing Additional Spectrum Would be Incremental.** In our analysis, we have not factored in gains from spectrum savings given our assumption that the merged company will replace the XM satellites when they are closer to their end of lives and discontinue the Sirius service at the end of the satellite lives. If the company decides to replace the satellites earlier, it would incur incremental costs of $400-$600 million over the 2008-2010 period, depending on the cost of refurbishing the existing on the ground spares and the cost of building additional spare satellites. In this case, however, the combined company could begin offering value added services (like video) immediately thereafter which would be value accretive. Hence, we would view the incremental investment as a positive contributor to our synergies estimate. Given our conservative assumptions regarding the additional revenue opportunity, if the two companies were to agree to give up spectrum as concession to get the merger approved, our synergies estimate would still be valid. While a spectrum-related concession likely could mean there may be an additional satellite radio competitor down the road, we think the time to market advantage, existing OEM distribution agreements, chipset development and satellite manufacturing costs and time likely could prove to be insurmountable challenges.

- **Incremental Revenues Limited to Advertising in Near-to-Mid Term.** The only incremental revenues we think the merged entity can start generating almost immediately after the merger is advertising revenues that arise from the increased leverage from a subscriber base that is virtually doubled. We have assumed that the merged entity is able to generate the same level of advertising sales per sub for the entire entity as we are projecting for Sirius on a standalone basis on the assumption that Howard Stern likely will remain a significant draw for advertisers and they will pay to get access to the increased sub base. The incremental revenue line item in the income statement merely reflects this assumption.

Exhibit 3. Merger Model – Valuation ('000s)

	2007E	2008E	2009E	2010E	2011E	2012E	2013E	Normalized
Operating Income (EBIT)	$(924,975)	$(205,615)	$394,887	$841,368	$1,201,012	$1,520,035	$2,021,917	$2,021,917
Less: Cash Taxes on Operating Income	(2,945)	(1,992)	(5,317)	(4,086)	(3,699)	(3,449)	(3,296)	(808,767)
Net Operating Profit Less Adjusted Taxes	**$(927,920)**	**$(207,607)**	**$389,570**	**$837,281**	**$1,197,313**	**$1,516,586**	**$2,018,621**	**$1,213,150**
Depreciation & Amortization	279,084	261,855	251,152	195,359	196,118	196,690	196,758	196,758
Change in Working Capital	260,255	222,104	220,571	158,097	115,325	88,698	(27,939)	(27,939)
Capital Expenditures	(227,230)	(217,288)	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(196,758)
Other (Primarily Stock Based Compensation)	414,008	407,453	453,160	434,914	361,729	365,793	343,607	343,607
Unlevered Free Cash Flow	**$(201,903)**	**$496,515**	**$1,264,454**	**$1,595,651**	**$1,840,495**	**$2,137,768**	**$2,501,046**	**$1,528,818**

Sum of the PV of Interim Unlevered FCF	$6,483,708
NPV of Unutilized NOLs	1,530,646
PV of Terminal Value	12,412,783
Implied Enterprise Value	**$20,427,137**
Add: Equity in Canadian Ventures, WRSP	200,000
Add: Option Proceeds	432,455
Add: Cash & Equivalents	359,192
Less: Debt & Preferred	(2,521,948)
Equity Value	**$18,896,836**

DCF Assumptions	
Risk Free Rate (R_f)	5.0%
Estimated Equity Risk Premium (R_m-R_f)	5.4%
Beta (β)	1.64
Cost of Equity (K_e)	13.8%
Cost of Debt (K_d)	9.0%
Target Debt/Capital Ratio	35.0%
Tax Rate	40.0%
Weighted Average Cost of Capital (WACC)	**10.9%**
G (Perpetual Growth Rate)	**4.0%**
Terminal Multiple =(1+G)/(WACC-G)	15.1x
Implied Terminal Year Multiple on EBITDA	9.6x

NPV of Synergies	
Merger Co Enterprise Value	$20,427,137
Less: DCF Enterprise Valuation of XM	(6,908,010)
Less: DCF Enterprise Valuation of Sirius	(6,825,916)
Value Addition	**$6,693,211**

NPV of Synergies

Source: Company Documents; Bear, Stearns & Co. Inc.

Sensitivity Analysis Suggests Significant Variability in NPV Depending on WACC and Perpetual Growth Rate Assumptions. In the valuation presented above, we have assumed that the combined company equity trades at a beta that is 10% lower than the average of the two companies currently, reflecting the lower market perceived risks to the cash flows of a combined entity. We also assume that the combined company's cost of debt is 9%, in line with our assumption for XM. All other assumptions have remained unchanged from the individual models. Note, using our beta assumption for XM at about 1.8 would imply a synergies value of $5.5 billion. Further, using our beta estimate for Sirius of 1.9, the NPV of the synergies would be $4 billion, or still one-third of the current trading enterprise values of the two companies in aggregate. As can be seen from the following chart, the NPV of the synergies is extremely sensitive to changes in valuation assumptions.

Exhibit 4. Merger Model – Sensitivity of NPV of Synergies to WACC and g Assumptions ('000s)

Implied Beta (β)		1.35	1.50	1.64	1.78	1.92
Weighted Average Cost of Capital (WACC)		9.9%	10.4%	10.9%	11.4%	11.9%
	3.0%	$7,580,286	$6,214,786	$5,015,632	$3,953,394	$3,005,250
	3.5%	8,663,984	7,130,798	5,797,665	4,626,889	3,589,744
G (Perpetual Growth Rate)	4.0%	9,931,691	8,190,175	6,693,211	5,391,527	4,248,324
	4.5%	11,434,621	9,429,431	7,728,919	6,267,153	4,996,030
	5.0%	13,244,937	10,698,630	8,940,486	7,279,823	5,852,265

Source: Company Documents; Bear, Stearns & Co. Inc.

What Does that Mean for the Stocks? Our 2007 year-end target price for XM is $17. Assuming that Sirius trades at a marginal EV discount to XM at year-end (based on our expectation that its subscriber base likely will continue to remain larger than Sirius'), the implied fair value for Sirius is $4 per share. Discounting the valuation to today's date (using the respective costs of equity) would imply current fair values of $14.75 for XM on a fundamental basis, and $3.70 for Sirius. Given that the stocks are trading at levels higher than the implied fair values today, the market is already impounding some of the synergies in current valuations. If we similarly discount the fair value of the EVs based on the DCF valuations to today's date (using the weighted average cost of capital), we get a total EV of $12.4 billion for the two companies, which is about $100 million lower than the current combined valuations of $12.5 billion based on current share prices. Based on our estimate of the NPV of the synergies at $6.7 billion, this implies that the market is already factoring in only about 2% of the synergies in current valuations (down from about 25% a week ago), which could also be taken as a proxy of the probability the investors are assigning to the merger being consummated. Assuming that the two companies share the final EV valuation equally (i.e. merger of equals), we derive fair value per share at $27 for XM at year-end 2007, and $6 for Sirius, which translates into $24 fair value per share as of today for XM and $5.50-6.00 for Sirius.

Exhibit 5. Merger Model – What Does that Mean for the Stocks? ('000s, Except per Share Values)

Pre-Merger Valuations

	YE 2007		Value as of Today: 1/23/2007					
			Implied DCF Value		Current Share Prices		Diff (Curr-Fair Value)	
	Per Share	Ent Value	Per Share	Ent Value	Per Share	Ent Value	Per Share	Ent Value
XM Satellite Radio	$17	$6,908,010	$14.77	$6,247,745	$14.73	$6,050,748	($0.04)	($196,997)
Sirius Satellite Radio	4	6,825,916	3.67	6,130,103	3.85	6,415,481	0.18	285,378
Total		$13,733,926		$12,377,848		$12,466,229		$88,381
Total Estimated Synergies		$6,693,211		$6,075,377				
% of Synergies Already Impounded								1.5%

% of Synergies Already Impounded in Current Stock Valuations

Merger Scenario: Merger of Equals

	% of Enterprise Values Shared by Each Company
XM Satellite Radio	50.0%
Sirius Satellite Radio	50.0%

Post-Merger Valuations

	YE 2007		Per Shares Values as of Today: 1/23/2007						
	Per Share	Ent Value	Implied DCF Value	Current Prices	Potential Upside	% Upside	Pre-Merger DCF Value	Value Impounded	NPV of Synergies
XM Satellite Radio	$26.57	$10,213,569	$24.11	$14.73	$9.38	63.7%	$14.77	($0.04)	$9
Sirius Satellite Radio	6.29	10,213,569	5.71	3.85	1.86	48.4%	3.67	0.18	2
Total		$20,427,137							

Source: Company Documents; Bear, Stearns & Co. Inc.

We also present a sensitivity of these current valuations to changes in assumptions regarding the WACC for the combined entity (which changes the NPV of synergies) and XM's share of the combined company's EV.

Exhibit 6. Merger Model – What Does that Mean for the Stocks? – Sensitivity Analysis

Sensitivity of XMSR Current Valuation to WACC and Share Assumptions

XMSR's Share of EV Valuation of Merged Entity / Weighted Average Cost of Capital (WACC)	9.9%	10.4%	10.9%	11.4%	11.9%
46.0%	$26.14	$23.87	$21.92	$20.22	$18.73
48.0%	27.43	25.05	23.01	21.24	19.69
50.0%	28.71	26.24	24.11	22.27	20.65
52.0%	29.99	27.42	25.21	23.29	21.61
54.0%	31.28	28.61	26.31	24.32	22.57

Sensitivity of SIRI Current Valuation to WACC and Share Assumptions

SIRI's Share of EV Valuation of Merged Entity / Weighted Average Cost of Capital (WACC)	9.9%	10.4%	10.9%	11.4%	11.9%
54.0%	$7.22	$6.65	$6.17	$5.75	$5.38
52.0%	6.95	6.41	5.94	5.54	5.18
50.0%	6.68	6.16	5.71	5.32	4.98
48.0%	6.41	5.91	5.48	5.11	4.78
46.0%	6.14	5.66	5.25	4.89	4.58

Source: Company Documents; Bear, Stearns & Co. Inc.

A LOOK AT THE FINANCIAL STATEMENTS OF THE POTENTIAL MERGED ENTITY

Our analysis suggests that the two companies could generate an incremental ~$1.1 billion in pre-tax synergies by 2013, which would result in a tax-adjusted NPV of synergies at about $6.7 billion. Note that in our merger model, we are projecting unutilized NOLs remaining on the balance sheet, implying that the incremental revenue opportunity/cost savings all flow directly to the balance sheet without any cash impact in the respective years until the NOLs are exhausted.

Incremental Revenues Conservatively Limited to Advertising in Near-to-Mid Term. As we stated earlier, the only incremental revenues we think the merged entity can start generating almost immediately after the merger is advertising revenues that arise from the increased leverage from a subscriber base that is virtually doubled. We have assumed that the merged entity is able to generate the same level of advertising sales per sub for the entire entity as we are projecting for Sirius on a standalone basis on the assumption that Howard Stern likely will remain a significant draw for advertisers and they will pay to get access to the increased sub base. The incremental revenue line item in the income statement merely reflects this assumption.

Exhibit 7. Merger Model – Income Statement ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	2013E Diff	'05A-'13E CAGR
Key Subscriber Metrics											
Ending Subscribers	9,250	13,652	17,406	21,598	25,717	26,094	27,597	29,891	31,367	—	16.5%
Gross Internal Additions	6,667	7,597	8,051	9,127	9,632	10,324	10,847	11,669	12,290		8.0%
Net Internal Additions	4,377	4,402	3,754	3,691	2,619	2,377	1,503	1,594	1,476		(13.9)%
Total ARPU, Including Advertising	$9.79	$11.12	$11.58	$12.17	$12.76	$13.31	$13.76	$14.15	$14.50		5.0%
Implied Monthly Churn	2.2%	2.3%	2.3%	2.4%	2.6%	2.7%	2.8%	2.8%	2.9%		3.8%
CPGA - Cost Per Gross Addition	$143	$134	$120	$85	$75	$71	$67	$63	$62		(10.0)%
Income Statement											
Revenues											
Subscriber Revenues	$736,293	$1,389,765	$1,921,014	$2,388,055	$2,833,237	$3,201,875	$3,527,835	$3,829,397	$4,124,50		24.0%
Equipment Revenues	30,453	36,552	37,516	42,013	43,564	45,510	46,864	49,381	50,902		6.6%
Net Ad Sales Revenues	26,234	65,963	157,385	270,764	399,350	575,608	641,077	740,807	821,605		53.8%
Royalties & Other	7,531	35,943	37,740	39,627	41,609	43,689	45,873	48,167	50,575		26.9%
Merger-Related Synergies											
– Advertising Sales	—	—	—	71,699	114,455	159,995	204,948	247,671	280,488		
– Advanced Services	—	—	—	—	—	—	—	—	—		
Total Revenues	**$800,511**	**$1,528,223**	**$2,154,055**	**$2,812,157**	**$3,432,014**	**$3,976,676**	**$4,466,597**	**$4,915,374**	**$5,328,078**	**$280,488**	**26.7%**
Operating Expenses											
Revenue Share and Royalties	$84,599	$154,018	$219,519	$289,180	$391,281	$479,075	$570,117	$619,558	$485,066	$181,105	24.4%
Cost of Equipment Sales	52,534	78,377	73,258	79,728	81,164	84,989	88,327	93,342	95,272		7.7%
Advertising Sales	10,058	14,779	26,886	39,007	49,834	57,570	62,910	65,701	65,868		26.5%
Customer Care & Billing	122,875	182,947	227,062	269,947	285,709	294,121	312,090	326,183	336,902	$37,434	13.4%
Broadcast & Operations	111,280	145,152	149,507	155,992	158,612	163,370	168,271	173,319	166,476	$12,043	5.2%
Programming & Content	222,203	427,791	583,791	613,960	636,276	676,469	735,158	780,128	822,646	$83,372	17.8%
Total Cost of Revenue	**$603,549**	**$1,003,063**	**$1,280,023**	**$1,445,809**	**$1,602,875**	**$1755,594**	**$1,936,873**	**$2,058,230**	**$1,972,23**		**16.0%**
Research & Development	74,143	108,106	107,446	81,712	59,642	61,350	63,107	64,914	66,773	$54,134	(1.3)%
General & Administration	103,695	170,729	175,851	145,248	112,651	116,031	119,512	123,097	126,790	$83,185	2.5%
Total Pre-Marketing Expenses	**$781,87**	**$1,281,898**	**$1,558,319**	**$1,672,769**	**$1,775,168**	**$1,932,975**	**$2,119,491**	**$2,246,241**	**$2,165,79**		**13.6%**
Marketing Expenses											
Marketing Related Expenses	$954,916	$1,018,218	$965,473	$776,962	$722,859	$728,565	$728,314	$736,687	$758,950	$168,857	(2.8)%
Amortization of GM Liability	37,251	29,761	26,238	26,238	26,238	26,238	26,238	26,238	6,006		—
Total Marketing Costs	**$992,67**	**$1,047,979**	**$991,711**	**$803,200**	**$749,097**	**$754,803**	**$754,551**	**$762,925**	**$764,956**		**(3.2)%**
Total Operating Expenses	**$1,773,554**	**$2,329,876**	**$2,550,030**	**$2,475,969**	**$2,524,265**	**$2,687,777**	**$2,874,043**	**$3,009,166**	**$2,930,74**		**6.5%**
Operating Cashflow (EBITDA)	**$(973,043)**	**$(801,664)**	**$(395,975)**	**$336,188**	**$907,749**	**$1,288,899**	**$1,592,555**	**$1,906,208**	**$2,397,32**	**$898,61**	—
Depreciation & Amortization	212,974	276,857	279,084	261,853	231,152	195,359	196,118	196,690	196,758		
Stock Based Compensation	163,078	419,435	249,916	279,951	281,710	252,172	195,425	189,483	178,654		
Operating Income (EBIT)	**$(1,349,095)**	**$(1,497,946)**	**$(924,975)**	**$(205,615)**	**$394,887**	**$841,368**	**$1,201,012**	**$1,520,036**	**$2,021,91**		
Interest Income	50,464	53,603	10,572	14,752	27,839	51,460	82,639	130,175	190,940		
Interest Expense	(153,152)	(178,987)	(162,948)	(155,984)	(154,276)	(168,047)	(146,669)	(109,810)	(71,338)		
Equity in Income of Affiliates	—	(22,796)	(17,097)	(12,823)	(9,617)	(7,213)	(5,770)	(4,616)	(3,693)		
Other Income (Expense)	(27,708)	(168,484)	—	—	—	—	—	—	—		
Pretax Income	**$(1,489,491)**	**$(1,814,609)**	**$(1,094,447)**	**$(359,670)**	**$258,833**	**$717,568**	**$1,131,411**	**$1,535,784**	**$2,137,82**		
Income Tax	(4,641)	(3,485)	(3,485)	(3,485)	(3,485)	(3,485)	(3,485)	(3,485)	(3,485)		
Net Income/ Loss	**$(1,494,132)**	**$(1,818,094)**	**$(1,097,932)**	**$(363,155)**	**$255,348**	**$714,083**	**$1,127,926**	**$1,532,299**	**$2,134,34**		
Preferred Dividends	(8,597)	(7,986)	(7,986)	(7,986)	(7,986)	(7,986)	(7,986)	(7,986)	(7,986)		
Income Available to Shareholders	**$(1,502,729)**	**$(1,826,080)**	**$(1,105,918)**	**$(371,141)**	**$247,362**	**$706,097**	**$1,119,940**	**$1,524,313**	**$2,126,35**		

Source: Company Documents, Bear, Stearns & Co. Inc.

Cost Savings Could be Material. In the following section, we discuss the potential cost savings by line item.

③ **Revenue Share and Royalties.** This is the second largest expense line for the company excluding marketing, and given the increased leverage a combined entity may have relative to the OEM manufacturers, could be a significant source for cost savings in the future as the OEM manufacturers renew their existing agreements. While there is significant scope for cost reduction as far as the GM agreement is concerned (which was the first ever OEM deal for satellite radio, and includes virtually onerous revenue share for GM), we think the increased leverage for satellite radio is unlikely to result in any significant cost savings for the following reasons (i) there are additional media entertainment options available in the cars today, and increasingly in the future, including mobile video (WiMAX, 3.5G Wireless), iPODs/MP3 Players (that could offer video in addition to audio), terrestrial radio including HD radio, that will increasingly erode satellite radio's uniqueness, (ii) satellite radio will need to continue to adequately incent the OEM manufacturers for support. As a result, we are only assuming a 5%-point decline in average rates to 20% for the OEM revenue share, and that too, in the outer years when the contracts come up for renewal; however, the savings could amount to more than $200 million per year. In the near-term, however, given our assumption that MergeCo will begin selling only XM's radios, MergeCo likely will need to pay technology royalties on the chipsets, currently estimated at about 2% of revenues. While MergeCo probably will renegotiate the royalty levels, we conservatively think that the combined company may have to pay more technology royalties than that currently projected in our standalone XM model.

Exhibit 8. Merger Model – Revenue Share and Royalties ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E		'05A-'13E CAGR
Current Revenue Share and Royalties	$84,599	$154,018	$219,519	$287,970	$383,751	$463,494	$537,893	$606,427	$666,171		29.4%
Less Savings	–	–	–	1,210	7,530	15,581	32,225	13,131	(181,105)		
Revenue Share and Royalties	$84,599	$154,018	$219,519	$289,180	$391,281	$479,075	$570,117	$619,558	$485,066		24.4%
General Motors											
GM Revs from Promotions (Gross Adds)	$24,788	$26,421	$127,673	$134,912	$141,781	$156,096	$171,143	$186,953	$193,101		29.3%
GM Revs from Average Base	146,124	212,260	121,346	202,008	275,010	329,553	376,796	415,249	456,633		15.3%
Total GM-Related Revenues	$170,912	$238,681	$249,019	$336,920	$416,791	$485,649	$547,939	$602,201	$649,735		18.2%
Pre-Merger											
Revenue Share	$59,819	$92,489	$99,608	$134,768	$187,556	$218,542	$246,573	$270,991	$292,381		21.9%
Revenue Share %	35.0%	38.8%	40.0%	40.0%	45.0%	45.0%	45.0%	45.0%	45.0%	**Contract Renewal in September 2013**	
Post-Merger											
Revenue Share	$59,819	$92,489	$99,608	$134,768	$187,556	$218,542	$246,573	$270,991	$129,947		10.2%
Revenue Share %	35.0%	38.8%	40.0%	40.0%	45.0%	45.0%	45.0%	45.0%	20.0%		
Savings	–	–	–	–	–	–	–	–	$162,434		
Technology Royalties											
Pre-Merger											
Technology Royalty Expense	$12,056	$15,377	$19,499	$23,779	$28,066	$31,743	$35,386	$38,938	$42,280		
Royalty (% of Total Revenues)	2.2%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Post-Merger											
Technology Royalty Expense	$12,055	$15,377	$19,499	$24,989	$35,596	$47,324	$67,611	$82,947	$89,911		28.6%
Royalty (% of Total Revenues)	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%	1.7%		
Savings	–	–	–	$(1,210)	$(7,530)	$(15,581)	$(32,225)	$(44,009)	$(47,631)		
DaimlerChrysler											
Average Subscriber Base	344	839	1,401	2,023	2,579	3,052	3,477	3,850	4,161		36.5%
Average Revenue per OEM Subscriber	$11.87	$11.87	$12.11	$12.35	$12.60	$12.85	$13.11	$13.37	$13.64		1.7%
Attributable Revenues	$49,056	$119,539	$203,607	$299,750	$389,888	$470,547	$546,927	$617,560	$680,876		38.9%
Pre-Merger											
Revenue Share	$12,264	$29,885	$50,902	$74,938	$97,472	$117,637	$136,732	$154,390	$170,219		38.9%
Revenue Share %	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	**Contract Renewal in September 2012**	–
Post-Merger											
Revenue Share	$12,264	$29,885	$50,902	$74,938	$97,472	$117,637	$136,732	$123,512	$136,175		35.1%
Revenue Share %	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	20.0%	20.0%		
Savings	–	–	–	–	–	–	–	$30,878	$34,044		
Ford											
Average Subscriber Base	13	75	521	1,231	1,870	2,479	3,032	3,543	3,943		104.4%
Average Revenue per OEM Subscriber	$11.87	$11.87	$12.11	$12.35	$12.60	$12.85	$13.11	$13.37	$13.64		1.7%
Attributable Revenues	$1,844	$10,726	$75,698	$182,405	$282,629	$382,289	$476,808	$568,433	$645,163		108.0%
Pre-Merger											
Revenue Share	$461	$2,681	$18,924	$45,601	$70,657	$95,572	$119,202	$142,108	$161,291		108.0%
Revenue Share %	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%		–
Post-Merger											
Revenue Share	$461	$2,681	$18,924	$45,601	$70,657	$95,572	$119,202	$142,108	$129,033		102.2%
Revenue Share %	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	20.0%	**Ford has the option to extend the agreement until September 2013**	
Savings	–	–	–	–	–	–	–	–	$32,258		
Howard Stern Subs RevShare											
Average Incremental Sub Base	–	128	334	245	–	–	–	–	–		–
Average Revenue per Sub	$10.24	$10.26	$10.49	$10.58	$10.83	$11.08	$11.33	$11.57	$11.80		1.8%
Attributable Revenues	–	$51,447	$111,194	$31,170	–	–	–	–	–		–
Howard Stern Subs RevShare	–	$12,862	$27,798	$7,793	–	–	–	–	–		–
RevShare as % of Revenues	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%		–
Howard Stern Ad RevShare											
Average Incremental Sub Base	–	428	884	245	–	–	–	–	–		–
Average Revenue per Sub	$0.27	$0.58	$1.05	$1.48	$1.91	$2.29	$2.61	$2.85	$3.00		35.3%
Attributable Revenues	–	$2,895	$11,149	$4,366	–	–	–	–	–		–
Howard Stern Ad RevShare	–	$724	$2,787	$1,092	–	–	–	–	–		–
RevShare as % of Revenues	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%		–

Source: Company Documents, Bear, Stearns & Co. Inc.

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➂ **Customer Care & Billing.** For customer care effort, scale is important only upto a certain critical level, after which the cost per average subscriber stabilizes. We think customer case costs per average sub will decline to about $1 levels in the outer years for both the platforms. For some of the expenses like credit card processing fees, the costs will not decline even if the two platforms merge; however, certain other expenses, like infrastructure, the cost per average sub may actually come down slightly with a single offering and the higher scale. As such, we estimate a 10% decline in overall costs under this line item for the merged entity. Note that initially, as the two companies begin to merge operations, customer care expenses may actually increase as the customer care reps begin handling the transition. However, since we assume that the two systems will continue to broadcast content (and no single set of subs will be disenfranchised by the move), the disruption likely will be minimal.

Exhibit 9. Merger Model – Customer Care & Billing ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Current Customer Care & Billing	**$122,875**	**$182,947**	**$227,062**	**$269,947**	**$300,746**	**$326,801**	**$346,766**	**$362,425**	**$374,336**	**14.9%**
Less: Savings	–	–	–	–	(15,037)	(32,680)	(34,677)	(36,243)	(37,434)	
Customer Care & Billing	**$122,875**	**$182,947**	**$227,06[illegible]**	**$269,947**	**$285,709**	**$294,121**	**$312,090**	**$326,183**	**$336,902**	**13.4%**
YoY Growth										
Current Customer Care & Billing		48.9%	24.1%	18.9%	11.4%	8.7%	6.1%	4.5%	3.3%	
Customer Care & Billing		48.9%	24.1%	18.9%	5.8%	2.9%	6.1%	4.5%	3.3%	
XM										
Customer Care Expenses	$76,222	$110,505	$123,415	$142,834	$157,991	$171,381	$183,312	$193,885	$201,648	12.9%
Average Subs Base	4,581	6,780	8,441	10,187	11,771	13,061	14,297	15,484	16,499	17.4%
Cost per Average Sub	$1.39	$1.36	$1.22	$1.17	$1.12	$1.09	$1.07	$1.04	$1.02	(3.8)%
Sirius										
Customer Care Expenses	$46,653	$72,642	$103,647	$127,113	$142,755	$155,420	$163,454	$168,540	$172,688	17.8%
Average Subs Base	2,230	4,670	7,089	9,065	10,636	11,844	12,748	13,460	14,130	26.0%
Cost per Average Sub	$1.74	$1.30	$1.22	$1.17	$1.12	$1.09	$1.07	$1.04	$1.02	(6.5)%
Savings as % of Sirius Expenses	–	–			5.0%	10.0%	10.0%	10.0%	10.0%	
Savings	–	–	–	–	**$15,037**	**$32,680**	**$34,677**	**$36,243**	**$37,434**	

Source: Company Documents, Bear, Stearns & Co. Inc.

➂ **Broadcast & Operations.** We have assumed that Sirius' system would be discontinued when it reaches end of life, likely in early-to-mid next decade. However, with the increasing scale, it is possible that the merged entity likely may decide to improve its network coverage with more repeaters, or even more satellites. On the space segment side, one of the things the MergeCo can do is add a satellite with more powerful beams that are aimed at certain locations, like New York, where the higher satellite power levels plus more repeaters may ensure better in-home coverage, and better signal quality for portables. Given that, we are projecting 25% cost savings for Sirius' broadcast and operations expense in 2013, however, this item is unlikely to decline to zero as some of the studio expense (like Howard Stern's operations in New York) are likely to continue.

Exhibit 10. Merger Model – Broadcast & Operations ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Current Broadcast & Operations	**$111,280**	**$145,152**	**$149,507**	**$153,992**	**$158,612**	**$163,370**	**$168,271**	**$173,319**	**$178,519**	**6.1%**
Less: Savings	–	–	–	–	–	–	–	–	(12,043)	
Broadcast & Operations	**$111,280**	**$145,152**	**$149,50[illegible]**	**$153,992**	**$158,612**	**$163,370**	**$168,271**	**$173,319**	**$166,478**	**5.2%**
YoY Growth										
Current Broadcast & Operations		30.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Broadcast & Operations		30.4%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	(3.9)%	
XM										
Satellite & Terrestrial	$42,355	$47,960	$49,399	$50,881	$52,407	$53,979	$55,599	$57,267	$58,985	4.2%
Broadcast	16,610	24,679	25,419	26,182	26,967	27,776	28,610	29,468	30,352	7.8%
Operations	24,459	33,346	34,346	35,377	36,438	37,531	38,657	39,817	41,011	6.7%
Total	**$83,424**	**$105,986**	**$109,165**	**$112,439**	**$115,813**	**$119,287**	**$122,866**	**$126,552**	**$130,348**	**5.7%**
Sirius										
Satellite and Transmission	$27,856	$39,167	$40,34[illegible]	$41,552	$42,799	$44,083	$45,405	$46,767	$48,170	7.1%
Savings as % of Total Expenses	–	–	–	–	–	–	–	–	25.0%	
Savings	–	–	–	–	–	–	–	–	**$12,043**	

Source: Company Documents, Bear, Stearns & Co. Inc.

➂ **Programming & Content.** Programming and Content likely could be a significant source of cost savings given that many music formats are similar and that the two companies independently have bid up the contracts for big ticket content like MLB, Howard Stern, Oprah, NASCAR, NFL, and NHL. However, given the increased sub base, especially for specialty outsourced content, we do not think the aggregate spending may decline. Rather, the question would be whether the larger scale would result in a stabilization of the increase in the cost of content that typically happens whenever a content contract is renewed, or will the cost of the content decline on an absolute basis. We believe that management likely will evaluate each contract with regard to the attractiveness of the content as well as the value added in the relationship with the content owner. In any case, we believe the cost of content per sub will be reduced significantly (i.e. same cost spread over twice the subs) when the agreements are renewed.

- **MLB.** The MLB contract runs through our entire forecast period, and as such, cannot result in cost savings explicitly. However, when the contract comes up for renewal, we think renewed rates could be at a significant discount to the current $60 million annually. The primary reason is that XM's MLB coverage likely has not resulted in stellar sub growth during the past two years, and Sirius has still taken market share at retail.

- **Haward Stern.** In our existing Sirius model, we have increased the cash component of Howard Stern's compensation by $10 million per year after his current agreement expires. Given Stern's following and his exclusivity to the satellite radio platform, we think he will continue to remain valuable to satellite radio. We are not assuming any significant decline in his compensation after his current contract expires. Again, on a cost per sub basis, we think the cost of Howard Stern's contract likely will be significantly lower than currently.

- **Oprah Winfrey.** We are not forecasting any expense relating to Oprah after her current contract expires. Despite the start of her dedicated channel in 4Q06, Sirius has maintained its commanding retail market share (and even increased to 60% in December), which could imply that her channel is not that big a draw on radio.

- **NASCAR.** This contract has significant scope for savings, as the recent Sirius bid was significantly higher than XM's. After the 5 year term of the current contract expires, we are not projecting any cost savings to our existing projections. However, the renewal rates on this contract remains uncertain as Sirius will only begin marketing NASCAR this year, and XM (which had the exclusive rights initially) chose not to bid as aggressively as Sirius when it had come up for renewal.

- **NFL Sunday Drive.** Like the NASCAR agreement, we think this contract too has significant scope for savings. After year term of the current contract expires in 2011, we are projecting no cost savings to our existing projections.

- **NHL.** This expense is primarily borne by XM Canada. While the potential for expense reduction certainly exists, we think the cost impact would not be material to the U.S. operations.

- **In-House Content Costs.** Given the duplication in the programming, we think this line item could present a significant source of cost savings. However, we think the MergeCo may try to strengthen its in-house content expertise in order to contain the costs of the outsourced content. As such, we are projecting 40% reduction in in-house content costs for both companies.

- **Content Royalties.** We are not projecting any savings on our estimated 7.5% royalty rate in the future.

Exhibit 11. Merger Model – Programming & Content ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Current Programming & Content	**$222,203**	**$427,791**	**$583,791**	**$648,647**	**$708,238**	**$751,118**	**$812,601**	**$860,477**	**$906,018**	**19.2%**
Less Savings	—	—	—	(34,688)	(71,961)	(74,648)	(77,443)	(80,349)	(83,372)	
Programming & Content	**$222,203**	**$427,791**	**$583,791**	**$613,960**	**$636,278**	**$676,469**	**$735,158**	**$780,128**	**$822,646**	**17.8%**
YoY Growth										
Current Programming & Content		92.5%	36.5%	11.1%	9.2%	6.1%	8.2%	5.9%	5.3%	
Programming & Content		92.5%	36.5%	5.2%	3.6%	6.3%	8.7%	6.1%	5.5%	
XM										
Pre-Merger Costs										
In-House Programming Costs	$50,567	$104,142	$107,26	$110,484	$113,799	$117,213	$120,729	$124,351	$128,082	12.3%
Content Royalties	22,000	36,063	115,551	140913	166,316	188,105	209,697	230,743	250,551	35.5%
Oprah Winfrey-Related Costs	—	4,583	18,333	18,333	13,750	—	—	—	—	—
MLB-Related Costs	50,441	58,500	58,500	58,500	58,500	58,500	58,500	58,500	58,500	1.9%
Total Pre-Merger Costs	**$123,008**	**$203,288**	**$299,68**	**$328,230**	**$352,364**	**$363,817**	**$388,926**	**$413,594**	**$437,132**	**17.2%**
Savings										
In-House Programming Costs	—	—	—	$22,097	$45,520	$46,885	$48,292	$49,740	$51,233	
Content Royalties	—	—	—	—		—	—	—	—	
Oprah Winfrey-Related Costs	—	—	—	—			—	—	—	
MLB-Related Costs	—	—	—	—	—	—	—	—	—	
Total Savings	—	—	—	**$22,097**	**$45520**	**$46,885**	**$48,292**	**$49,740**	**$51,233**	
Post-Merger Costs										
In-House Programming Costs	$50,567	$104,142	$107,26	$88,387	$68,279	$70,328	$72,437	$74,611	$76,849	5.4%
Content Royalties	22,000	36,063	115,551	140913	166,316	188,105	209,697	230,743	250,551	35.5%
Oprah Winfrey-Related Costs	—	4,583	18,333	18,333	13,750	—	—	—	—	—
MLB-Related Costs	50,441	58,500	58,500	58,500	58,500	58,500	58,500	58,500	58,500	—
Total Post-Merger Costs	**$123,008**	**$203,288**	**$299,68**	**$306,133**	**$306,846**	**$316,932**	**$340,634**	**$363,854**	**$385,900**	**15.4%**
Sirius										
Pre-Merger Costs										
Cost of Studios & Staff	$52,075	$57,102	$59958	$62,955	$66,103	$69,408	$72,879	$76,523	$80,349	5.6%
BMI/SACAP/SESAC Royalties	24,225	61,310	99855	133,133	165,440	193,563	216,468	236,032	254,208	34.2%
NFL Sunday Drive	22,896	26,090	22,829	22,829	22,829	22,829	22,829	22,829	22,829	(0.0)%
NASCAR	—	—	21,500	21,500	21,500	21,500	21,500	21,500	21,500	—
Howard Stern	—	30,000	80,000	30,000	80,000	30,000	30,000	30,000	90,000	—
Total Pre-Merger Costs	**$99,195**	**$224,502**	**$284,14**	**$320,417**	**$355,872**	**$387,300**	**$423,675**	**$446,883**	**$468,889**	**21.4%**
Savings										
Cost of Studios & Staff	—	—	—	$12,591	$26,441	$27,763	$29,151	$30,609	$32,140	
BMI/SACAP/SESAC Royalties	—	—	—	—	—	—	—	—	—	
NFL Sunday Drive	—	—	—	—	—	—	—	—	—	
NASCAR	—	—	—	—	—	—	—	—	—	
Howard Stern	—	—	—	—	—	—	—	—	—	
Total Savings	—	—	—	**$12,591**	**$26441**	**$27,763**	**$29,151**	**$30,609**	**$32,140**	
Post-Merger Costs										
Cost of Studios & Staff	$52,075	$57,102	$59,98	$50,364	$39,662	$41,645	$43,727	$45,914	$48,209	(1.0)%
BMI/SACAP/SESAC Royalties	24,225	61,310	99855	133,133	165,440	193,563	216,468	236,032	254,208	34.2%
NFL Sunday Drive	22,896	26,090	22,829	22,829	22,829	22,829	22,829	22,829	22,829	(0.0)%
NASCAR	—	—	21,500	21,500	21,500	21,500	21,500	21,500	21,500	—
Howard Stern	—	30,000	30,000	30,000	80,000	30,000	90,000	90,000	90,000	—
Total Post-Merger Costs	**$99,195**	**$224,502**	**$284,14**	**$307,826**	**$329,431**	**$359,537**	**$394,524**	**$416,274**	**$436,746**	**20.4%**

Oprah Contract Expires 2009, We assume no expenses thereafter

MLB Contract Expires 2012, MLB has Option for 2013-1015

10 Year NHL Contract Expires 2015-2017

NFL's 7-Year Contract Expires YE 2011

NASCAR's 5-Year Contract Expires YE 2011

Howard Stern's 5-Year Contract Expires YE 2010

Source: Company Documents, Bear, Stearns & Co. Inc.

- **Research & Development.** We have assumed that Sirius' system would be discontinued when it reaches end of life, likely in early-to-mid next decade. Given that, we are projecting 75% cost savings for Sirius' research budget after the merger. We think the combined entity likely will spend more than our current estimates for XM as it devotes resources to developing value added applications and services that would be added once the next generation satellites are in place.

Exhibit 12 Merger Model – Research & Development ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Current Research & Development	$74,143	$108,106	$102,446	$105,519	$108,685	$111,619	$114,632	$117,727	$120,907	6.3%
Less Savings	–	–	–	(23,807)	(49,043)	(50,269)	(51,525)	(52,814)	(54,134)	
Research & Development	$74,143	$108,106	$102,446	$81,712	$59,642	$61,350	$63,107	$64,914	$66,773	(1.3)%
YoY Growth										
Current Research & Development		45.8%	(5.2)%	3.0%	3.0%	2.7%	2.7%	2.7%	2.7%	
Research & Development		45.8%	(5.2)%	(20.2)%	(27.0)%	2.9%	2.9%	2.9%	2.9%	
XM										
Research & Development	$31,218	$39,621	$40,809	$42,034	$43,295	$44,594	$45,931	$47,309	$48,729	5.7%
Sirius										
Research & Development	$42,925	$68,485	$61,637	$63,486	$65,390	$67,075	$68,701	$70,418	$72,179	6.7%
Savings as % of Sirius' Expenses	–			37.5%	75.0%	75.0%	75.0%	75.0%	75.0%	
Savings	–	–	–	$23,807	$49,043	$50,269	$51,525	$52,814	$54,134	

Source: Company Documents, Bear, Stearns & Co. Inc.

⊕ **General & Administration.** For G&A, we are projecting a similar 75% reduction in expenses that we are projecting for Sirius, as most of the activities are virtually duplicated at the two entities.

Exhibit 13 Merger Model – General & Administration ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Current General & Administration	$103,695	$170,729	$175,851	$181,126	$186560	$192,157	$197,921	$203,859	$209,975	9.2%
Less Savings	–	–	–	(35,878)	(73,909)	(76,126)	(78,410)	(80,762)	(83,185)	
General & Administration	$103,695	$170,729	$175,85	$145,248	$112,651	$116,031	$118,512	$123,097	$126,790	2.5%
YoY Growth										
Current General & Administration		64.6%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
General & Administration		64.6%	3.0%	(17.4)%	(22.4)%	3.0%	3.0%	3.0%	3.0%	
XM										
General & Administration	$43,864	$80,546	$82,962	$85,451	$88,015	$90,655	$93,375	$96,176	$99,061	10.7%
Sirius										
General & Administration	$59,831	$90,183	$92,88	$95,675	$98,545	$101,501	$104,546	$107,683	$110,913	8.0%
Savings as % of Sirius' Expenses	–			37.5%	75.0%	75.0%	75.0%	75.0%	75.0%	
Savings	–	–	–	$35,878	$73,909	$76,126	$78,410	$80,762	$83,185	

Source: Company Documents; Bear, Stearns & Co. Inc.

⊕ **Marketing Expenses.** We have assumed a 33% reduction in the advertising & marketing budgets given that while the two operators would not need to compete with each other, the increased competition for media time in the car will force the MergeCo to still continue to spend aggressively to gain/maintain share. However, during the initial transition period, when the MergeCo begins selling XM radios exclusively at retail, the combined entity likely will need to increase its marketing budget to ensure a smooth transition at the retail level. We have also assumed that the combined entity's subscriber acquisition costs mirror those of XM on a standalone basis, based on the assumption that the merged company would only be selling XM-based radios. With scale, however, there is significant potential for further cost savings, especially among Sirius' auto OEMs which are still working off the 1st and 2nd generation chipsets that are significantly more expensive compared to what the XM's OEM partners are deploying.

Exhibit 14. Merger Model – Marketing Expenses ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E		'05A-'13E CAGR
Current Marketing Expenses	$954,916	$1,018,218	$965,473	$863,527	$869,881	$880,860	$884,461	$898,137	$925,807		(0.4)%
Less: Savings	–	–	–	(86,564)	(147,022)	(152,295)	(156,148)	(161,449)	(166,857)		
Marketing Expenses	$954,916	$1,018,218	$965,473	$776,962	$722,859	$728,565	$728,314	$736,687	$758,950		(2.8)%
YoY Growth											
Current Marketing Expenses		6.6%	(5.2)%	(10.6)%	0.7%	1.3%	0.4%	1.5%	3.1%		
Marketing Expenses		6.6%	(5.2)%	(19.5)%	(7.0)%	0.8%	(0.0)%	1.1%	3.0%		
XM											
Pre-Merger Costs											
Retention & Support	$22,275	$30,139	$31,043	$31,974	$32,934	$33,922	$34,939	$35,987	$37,067		6.6%
Subsidies & Distribution	264,719	229,565	223,63[illegible]	230,914	225,692	228,154	232,704	238,421	245,422		(0.9)%
Advertising & Marketing	163,312	158,218	162,964	167,853	172,889	178,076	183,418	188,920	194,588		2.2%
Total Pre-Merger Costs	$450,306	$417,922	$417,64	$430,741	$431,515	$440,151	$451,061	$463,329	$477,077		0.7%
Savings											
Retention & Support	–				–	–	–	–	–		
Subsidies & Distribution	–	–	–	–	–	–	–	–	–		
Advertising & Marketing	–	–	–	27,696	57,053	58,765	60,528	62,344	64,214		
Total Savings	–	–	–	$27,696	$57053	$58,765	$60,528	$62,344	$64,214		
Post-Merger Costs											
Retention & Support	$22,275	$30,139	$31,043	$31,974	$32,934	$33,922	$34,939	$35,987	$37,067		6.6%
Subsidies & Distribution	264,719	229,565	223,63[illegible]	230,914	225,692	228,154	232,704	238,421	245,422		(0.9)%
Advertising & Marketing	163,312	158,218	162,964	140,158	115,836	119,311	122,890	126,577	130,374		–
Total Post-Merger Costs	$450,306	$417,922	$417,64	$403,045	$374,462	$381,386	$390,533	$400,985	$412,863		(1.1)%
Sirius											
Pre-Merger Costs											
Sales and Marketing	154,969	180,809	162,964	167,853	172,889	178,076	183,418	188,920	194,588		2.9%
Subscriber Acquisition Costs	349,641	419,487	364,108	264,932	265,477	262,633	249,982	245,887	254,142		(3.9)%
Howard Stern Sub Bounty	–	–	20,760	–	–	–	–	–	–		–
Total Pre-Merger Costs	$504,610	$600,296	$547,83	$432,786	$438,366	$440,709	$433,400	$434,808	$448,730		(1.5)%
Savings										**Assuming Sirius'**	
Sales and Marketing	–	–	–	$27,696	$57,053	$58,765	$60,528	$62,344	$64,214	**SAC is the Same**	
Subscriber Acquisition Costs	–	–	–	31,173	32,916	34,765	35,092	36,762	38,429	**Level as XM's as**	
Howard Stern Sub Bounty	–	–	–	–	–	–	–	–	–	**MergeCo Begins**	
Total Savings	–	–	–	$58,869	$89,969	$93,530	$95,620	$99,106	$102,643	**Selling Only XM**	
Post-Merger Costs										**Radios**	
Sales and Marketing	$154,969	$180,809	$162,964	$140,158	$115,836	$119,311	$122,890	$126,577	$130,374		(2.1)%
Subscriber Acquisition Costs	349,641	419,487	364,108	233,759	232,562	227,868	214,890	209,126	215,713		(5.9)%
Howard Stern Sub Bounty	–	–	20,760	–	–	–	–	–	–		–
Total Post-Merger Costs	$504,610	$600,296	$547,83	$373,917	$348,397	$347,179	$337,780	$335,702	$346,087		(4.6)%

Source: Company Documents; Bear, Stearns & Co. Inc.

WHAT TO LOOK FOR IN 2007

Retail Likely to Become a Smaller Component of Growth in the Future. XM recently announced that Honda will be factory-installing XM radios in more than 650k vehicles in the 2007 model year, which is in line with our projections, and about 100k more than their installs in the model year 2006 vehicles. In addition, Honda is also expanding availability of the XM-enabled NavTraffic application for the navigation systems in its vehicles, which will increase XM's ARPU. As the OEM partners for both XM and Sirius expand factory-install deployments and consumers replace their older non-satellite radio vehicles with newer satellite radio-equipped automobiles, we think consumers likely will have a lower propensity to buy after-market plug-'n-play receivers. Over time, we believe that retail sales of satellite radio likely will be limited to wearables (like the Inno and Stiletto), home-based receivers (like the XM-enabled amplifiers or boomboxes), peripherals like the XM Passport that could be "plugged" into a variety of devices, and potentially, a small number of receivers for consumers who want XM but have Sirius-enabled vehicles, or vice versa.

Satellite Radio Seasonality Likely Determined by Trends in the Larger Auto Electronics Market. Throughout the weekly channel checks we conducted during November and December 2006, we found that while most consumer electronics stores were packed, traffic in the car audio section remained anemic. The salespersons we spoke with suggested that the car audio category picks up seasonally in the Spring and Summer as people begin venturing out after the Winter, which is in line with our expectations. We think over the past 3-4 years, this seasonality may have been masked by the takeup by the early adopters, consumer electronics enthusiasts (especially for the XM2go type of products), and Howard Stern. Satellite radio is primarily meant for the vehicle environment; in the aftermarket, we think the seasonality inherent in the larger auto electronics market may become more prominent in 2007.

XM-S-0001834

Focus Shifts to OEM; XM'S Story Becomes Interesting. As investor focus shifts beyond 4Q06 and into 2007, we think OEM deployments will become more important as will used car sales, and likely will be a key point of differentiation with Sirius, whose OEM partners trail XM's in terms of deployments and are also losing market share to XM's partners. While XM has traditionally outlined OEM plan commitments at its analysts day at the CES, we believe that the company is unlikely to host the event this year. As a result, we would expect more announcements from XM (similar to the recent one about Honda) regarding their OEM partner deployments in the near future, including those from GM, Toyota, and Hyundai.

In our model, we are projecting total subscribers at about 14 million by year-end 2010 (which is below management guidance of "high teens" of millions subscribers, and previous guidance of 20 million by 2010) and 17 million by year-end 2013. **In 2007, we expect XM to end the year with 9.2-9.3 million subscribers, down from about 10 million previously.**

Exhibit 15. XM Satellite Radio – Total Subscriber Projections ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Total Subscriber Base										
Beginning Subscribers	3,229	5,933	7,628	9,253	11,120	12,423	13,698	14,895	16,073	
Gross Additions	4,148	3,815	4,876	4,535	4,744	5,165	5,639	6,216	6,544	5.9%
Disconnects										
OEM Promotional Disconnects	[illegible]	[illegible]	(1,309)	(1,410)	(2,165)	(2,708)	[illegible]	[illegible]	(4,926)	
Other Disconnects	(453)	(923)	(1,142)	(1,258)	(1,276)	(1,183)	[illegible]	[illegible]	(765)	
Total Disconnects	(1,444)	(2,120)	(2,451)	(2,669)	(3,441)	(3,888)	(4,444)	(5,038)	(5,692)	
Net Additions	2,704	1,695	1,625	1,867	1,303	1,277	1,195	1,178	852	
Ending Subscribers	5,933	7,628	9,253	11,120	12,423	13,698	14,895	16,073	16,925	14.0%
Implied Monthly Churn	2.7%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6%	7%	9%	
Paying Subscriber Base	5,472	7,001	8,507	10,169	11,352	12,462	13,486	14,473	15,209	13.6%
OEM Promotional Subscribers	461	627	747	951	1,071	1,237	1,408	1,600	1,717	17.9%

2005 PEAK Year of Net Additions in Our Model

Below Revised Management Guidance of "High Teens"

Projecting ~17 Million Subscribers by 2013 in our current model

Source: Company Documents; Bear, Stearns & Co. Inc.

- **Retail Projected to be About 10% of Total Subscribers by 2010.** In our model, we are conservatively projecting gross additions from the retail channel to decline by 20% every year going forward, after declining 15% YoY in 2007. By 2013, we are estimating about 2 million after-market subscribers, which is projected to decline from the peak of about 4.4 million in 2007, and represent about 10% of the total subscriber base in 2013. **In 2007, we expect XM to end the year with about 4.4 million after-market subscribers, adding about 250k net new subs in the year.**

Exhibit 16. XM Satellite Radio – After-Market Subscriber Projections ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
After Market Subscribers										
Beginning Subscribers	1,673	3,413	4,123	4,369	4,221	3,833	3,360	2,867	2,407	
Gross Additions	2,075	1,633	1,388	1,110	888	711	568	455	364	
Disconnects	(335)	(923)	(1,142)	(1,258)	(1,276)	(1,183)	(1,062)	(915)	[illegible]	
Net Additions	1,740	710	246	(148)	(388)	(473)	(493)	(460)	(402)	
Ending Subscribers	3,413	4,123	4,369	4,221	3,833	3,360	2,867	2,407	2,005	
Monthly Churn			[illegible]	4%	6%				9%	

2005 PEAK Year of Retail Gross Additions in Our Model

This is 1/5th of the gross adds reported in 2005

10%-12.5% of total base in current model

Assuming churn rate continues to increase

Source: Company Documents; Bear, Stearns & Co. Inc.

Sirius Trails on the OEM Front but its Partners Could Become Very Aggressive. Sirius' partners are significantly behind XM's partners in terms of satellite radio deployments. In addition, Sirius' partners have consistently been losing market share in the U.S., during the past few years; in 2005, Sirius' partners' market share was about 41%, and since then, XM's partners, including Toyota and Honda, have gained even more share. However, Sirius' primary partners, DaimlerChrysler and Ford, have stated that they are going to aggressively deploy satellite radio in the future. Ford Canada, for example, is planning to make Sirius standard across all vehicles, which we think could become the model for the U.S. too. If that were to happen, we think other automobile manufacturers may be more inclined to follow suit in order to remain competitive in the market.

In our model, we are projecting total subscribers of ~14.5 million by year-end 2013, about 2.5 million lower than our projection for XM in the same year, with the difference primarily driven by the market share in the OEM distribution channel. **In 2007, we expect Sirius to end the year with 8.1-8.2 million subscribers.**

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Exhibit 17. Sirius Satellite Radio – Total Subscriber Projections ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
Total Subscriber Base										
Beginning Subscribers	1,143	3,317	6,024	8,153	9,978	11,295	12,394	13,102	13,818	
Gross Additions	2,519	3,782	3,975	4,591	4,888	5,159	5,207	5,452	5,752	10.9%
Disconnects	2006 PEAK Year of Net Additions in Our Model									
OEM Promotional Disconnects	(172)	(376)	(697)	(1,399)	(2,147)	(2,715)	(3,277)	(3,673)	(4,230)	
Other Disconnects	(174)	(646)	[illegible]	[illegible]	(1,424)	(1,344)	(1,222)	(1,064)	(897)	
Total Disconnects	(346)	(1,022)	(1,848)	(2,767)	(3,572)	(4,059)	(4,500)	(4,737)	(5,128)	
Net Additions	2,173	2,707	2,129	1,825	1,317	1,100	708	715	624	About 2.5 Million Lower than Our Current Projection for XM
Ending Subscribers	3,317	6,024	8,153	9,978	11,295	12,394	13,102	13,818	14,442	
Average Subscribers	1,917	4,638	7,089	9,365	10,636	11,844	12,748	13,460	14,130	
Implied Monthly Churn	1.5%	1.9%	[illegible]	[illegible]	2.8%	2.9%	2.9%	2.9%	3.0%	

Source: Company Documents; Bear, Stearns & Co. Inc.

③ **Retail Projected to be About 15% of Total Subscribers.** We are projecting gross additions from retail to decline by about 20% every year going forward, as we did for XM, and we assume that the retail market share for Sirius remains at 55% for the foreseeable future. By 2013, we are estimating about 2.4 million after-market subscribers, down from a peak of 4.7 million in 2007. **In 2007, we expect Sirius to end the year with about 4.7 million after-market subscribers (and higher than XM's projected after-market sub count of 4.4 million), adding about 500k net new subs in the year.**

Exhibit 18. Sirius Satellite Radio – After-Market Subecriber Projections ('000s)

	2005A	2006E	2007E	2008E	2009E	2010E	2011E	2012E	2013E	'05A-'13E CAGR
After Market Subscribers										
Beginning Subscribers	940	2,493	4,166	4,674	4,663	4,325	3,849	3,321	2,813	We are Projecting Both Satellite Radio Operators Will Lose Retail Subs as OEM Distribution Becomes More Ubiquitous
Gross Additions	1,772	2,522	1,696	1,357	1,086	869	695	556	446	
Disconnects	(219)	(849)	(1,189)	(1,368)	(1,424)	(1,344)	(1,222)	(1,064)	(897)	
Net Additions	1,553	1,673	508	(11)	(339)	(476)	(527)	(508)	(453)	
Ending Subscribers	2,493	4,166	4,674	4,663	4,325	3,849	3,321	2,813	2,360	
Average Subscribers	1,716	3,330	4,420	4,669	4,494	4,087	3,585	3,067	2,587	
Monthly Churn	1.1%	2.1%	2.2%	2.4%	2.6%	2.7%	2.8%	2.9%	2.9%	

Source: Company Documents; Bear, Stearns & Co. Inc.

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Robert Peck

Companies Analyzed

* Sirius Satellite Radio (SIRI) - $ 3.85 (as of January 22, 2007 16:00 ET) - Peer Perform

* XM Satellite Radio (XMSR) - $ 14.73 (as of January 22, 2007 16:00 ET) - Outperform
Price Target ('07) : $ 17.00
Risk(s) to Price Target- (i) Consumer sentiment; (ii) competition from Sirius, terrestrial analog/digital/HD Radio, portable internet devices and Internet streaming; (iii) dilutive content agreements, (iv) regulatory issues like the FCC investigation into

XM-S-0001836

the FM modulator power l evels, among others
Valuation Methodology- DCF with WACC of 12% and terminal growth rate in perpetuity of 4%.

Sirius Satellite Radio(SIRI): Bear, Stearns & Co. Inc. is a market maker in this company's equity securities.
XM Satellite Radio(XMSR): The subject company is or during the past twelve (12) months has been a non-investmen t banking client (securities related services) of Bear Stearns & Co. Inc.
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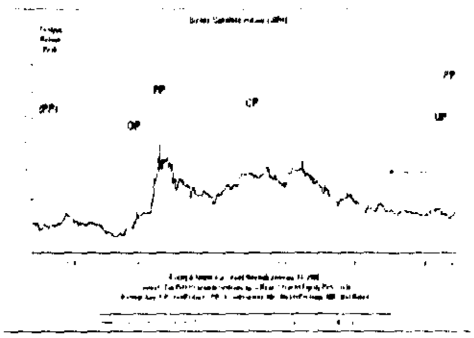

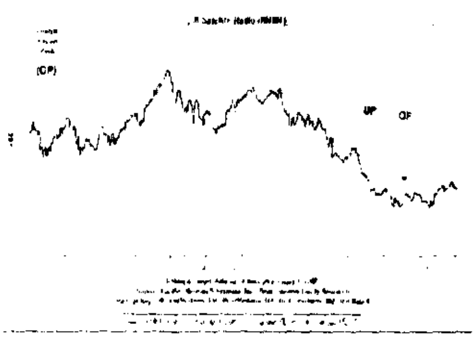

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Peer Perform (Neutral): 49.5 / 8.0
Underperform (Sell): 9.5 / 0.0

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